McCRORY CORPORATION
ANNUAL REPORT 1967

McCrory Philosophy of Management

We believe in the effectiveness of the multitude—a great many normal people with normal talents, working together, supporting and compensating for each other.

We believe in guided autonomy—individuals using their initiative, having authority to act upon it, and looking to fellow executives for guidance in fields of their specialty.

We try to break our big problems into small segments and assign each to an individual who is totally dedicated to solving it.

Our operating systems and procedures are designed to provide for individual as well as corporate success. In the long run the two are inseparable.

Finally, we believe in a continuous reexamination of everything we do in light of new experience. This is the only way we can maintain our progress.

Samuel Neaman
President, McCrory Corporation

McCRORY-McLELLAN-GREEN
One of the largest and oldest variety store chains in the country which operates 574 stores located in 36 states.

S. KLEIN DEPARTMENT STORES
This division operates thirteen full line department stores in the greater New York, Philadelphia and Washington, D.C. environs.

LERNER SHOPS
Largest chain exclusively offering women's and children's apparel. Has 361 stores coast-to-coast and in Puerto Rico—latest fashions at popular prices.

OTASCO-ECONOMY AUTO STORES
Has 454 stores in the south and southwest. Sells auto accessories and parts, appliances, sporting goods and housewares.

BEST & CO.
Known for elegance in women's and children's apparel. Operates nationally known Fifth Avenue store in New York City and 15 branch stores.

GLEN ALDEN—McCrory owns 2,388,230 shares of the common stock of this diversified company. Glen Alden manufactures foundation garments and family products under the "Playtex" and other labels; operates a chain of men's and boys' furnishing shops in 32 states; manufactures men's and boys' clothing and furnishings under such trademarks as "Timely Clothes," "B.V.D.," and "Alligator;" operates 160 motion picture theatres in the RKO Stanley Warner Division; has a Textile Division, and industrial and building products operations.

McCRORY CORPORATION

ANNUAL REPORT FOR THE YEAR ENDED JANUARY 31, 1968

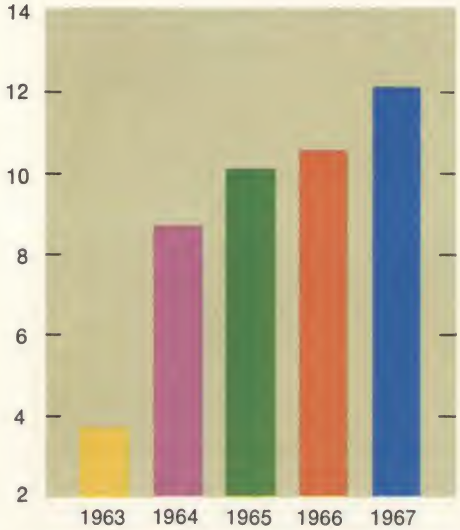
Financial Highlights

	1967	1966	1965	1964	1963
Net sales	$813,416,000	$712,727,000	$513,229,000	$547,433,000	$569,116,000
Net earnings	12,066,000	10,566,000	10,063,000	8,666,000	3,751,000
Return on common equity	13.3%	11.0%	10.9%	8.3%	2.8%
Net earnings per share	$2.27	$1.81	$1.70	$1.41	$ .48
Cash dividends per share	1.20	1.20	1.20	.80	.80

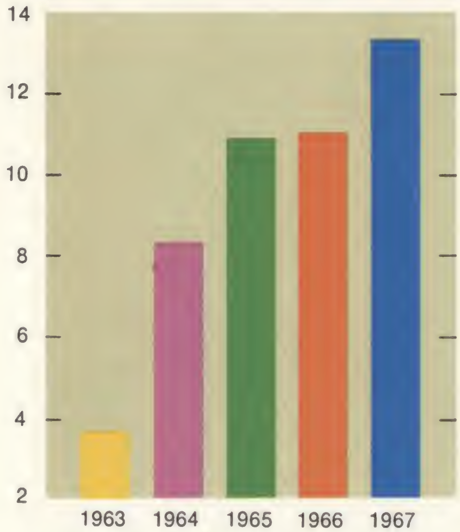
Table of Contents

Annual Meeting

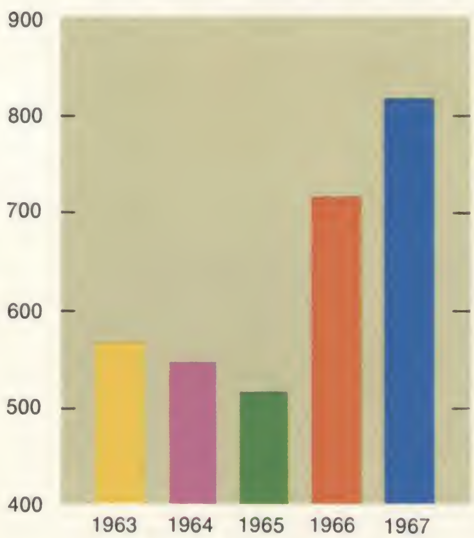
The Annual Meeting of Stockholders will be held in Room 315, Chemical Bank New York Trust Building, 277 Park Avenue, New York City, on Tuesday, May 28, 1968 at 10:30 a.m., local time. Each stockholder entitled to vote thereat will receive by mail a formal notice of meeting, together with proxy statement and form of proxy, on or about May 7, 1968, at which time proxies will be solicited by order of the Board of Directors.



Net Earnings
Millions of Dollars



Return on Common Equity
Percent



Net Sales
Millions of Dollars

To Our Shareholders:

In 1967, our company achieved record earnings for the fourth year in a row.

Net earnings for the year ended January 31, 1968, increased 14.2 per cent to $12,066,000, equal to $2.27 per common share after payment of preferred dividends, compared with $10,566,000, equal to $1.81 per common share after payment of preferred dividends, in the prior year.

Sales for 1967 rose 14.1 per cent to $813,416,000, compared to $712,727,000 a year earlier.

Earnings per common share for 1967 were computed on the basis of an average number of 4,874,000 shares outstanding for the year, compared to an average number of 5,203,000 shares for the previous year.

Cash generated was $26,105,000, equal to $5.36 per common share, compared with $24,806,000, equal to $4.77 per common share, a year ago. (Cash generated is defined as net income, depreciation, amortization and deferred federal income taxes.)

During the year, we paid our regular $1.20 dividend on common stock.

Divisional Progress

All our operations are profitable and are progressing. This year, two operating units are celebrating their 50th Anniversary—Lerner Shops and OTASCO-Economy Auto Stores.

Sales and earnings of our divisions and subsidiaries are set forth below. Divisional figures do not reflect certain other income, deductions and corporate home office expenses. Home office expenses include interest payment on long and short-term debt, corporate executive salaries, legal and auditing fees and other expenses. Other income consists principally of dividends on investments and earnings of McCrory Credit Corporation.

- Lerner Shops increased its net earnings *after taxes* 27 per cent to $8,550,000, compared with

$6,735,000 last year. Its sales rose 9.2 per cent to $248,735,000, compared with $227,760,000 a year ago.

- MMG increased its *pre-tax* profit 14.1 per cent to $12,040,000, compared with $10,553,000 last year. MMG has achieved a 5.1 per cent pre-tax profit margin on sales which is among the highest in the variety store industry. MMG had sales of $234,677,000 in 1967, compared to $238,406,000 a year ago.
  On page 4, our President and Chief Operating Officer describes the management techniques used to achieve the tremendous earnings progress at MMG and relates how the same concepts are being applied to the rebuilding program at S. Klein.

- S. Klein reported *pre-tax* earnings of $3,071,000 on sales of $220,883,000. It was merged into McCrory Corporation in November, 1967, having become a consolidated subsidiary of McCrory Corporation at the end of April, 1966.

- OTASCO-Economy Auto Stores had *pre-tax* earnings of $5,569,000, compared with $5,229,000 in 1966. Sales in 1967 were $69,997,000, compared with $65,294,000 a year earlier.

- Best & Co. had *pre-tax earnings* of $534,000 on sales of $35,638,000 in 1967. There are no comparable figures on its performance a year earlier.

- The progress of Glen Alden Corporation, in which McCrory has a major investment, is described on page 19. On March 20, 1968, Glen Alden purchased 945,126 shares of common stock (prior to three for two split in March, 1968) of Schenley Industries, Inc., which constitutes approximately 18 per cent of Schenley's issued and outstanding common stock. Glen Alden has agreed to afford all other holders of Schenley common stock an opportunity to sell their shares to Glen Alden.

Meshulam Riklis, Chairman of the Board

Summary

We are pleased to note that 47 children of McCrory Corporation employees currently are attending colleges across the country under corporate scholarship grants.

At this time, I would like to thank our friends in the financial community for their confidence and loyalty in the past year. I would like to thank our shareholders, customers, suppliers and, of course, all our energetic employees without whom 1967 could not have been the tremendous success it was.

Leading economists report that 1968 will be a year of many cycles and uncertainties, reflecting the nation's military commitments and other pressures, including that of a presidential election year. We believe all our divisions are solid and growing. Given favorable conditions in the economy as a whole, we are confident McCrory will continue to achieve gains in 1968.

Sincerely,

M. Riklis, *Chairman*

April 5, 1968

McCrory Management Techniques and Credo

Guided Autonomy is a Key to Progress in "Total Retailing" Company

by SAMUEL NEAMAN
President, Chief Operating Officer

Lerner Shops, OTASCO-Economy Auto Stores, McCrory-McLellan-Green Variety Stores, S. Klein Universal Department Stores and Best & Co. make McCrory Corporation one of the largest "total retailers" in the country.

McCrory Corporation developed from a series of acquisitions and mergers. Some of the companies which joined McCrory Corporation had a long history of good management and profitability while others had a less successful record.

As of the end of the 1967 fiscal year, all divisions were profitable, with realistic plans for further improvements in 1968.

The objectives of McCrory Corporation are to achieve growth and maintain the highest continuous after-tax return on invested capital, with emphasis on *continuous*.

McCrory Corporation's primary concern, in the past four or five years, has been to develop all of its acquired businesses into profitable, cohesive operating entities. Responsibility for this task was assigned to me in July, 1964. At that time, the corporation's most pressing problem was the MMG division, which was not functioning efficiently. I am pleased to report that the rebuilding of MMG has been completed successfully. The division in 1967 achieved a 5.1 per cent pre-tax profit margin on sales, one of the highest profit margins in the variety store industry.

New MMG table of organization outlines decentralization of management responsibilities.

Teething Problems

The improvement in the MMG division was not achieved without trials and tribulations. Each of the components that made up this division–McCrory, McLellan and Green–had to sacrifice its individuality so that it could function cohesively as part of a combined operation. Failure to do this in prior years had resulted in frequent changes in its top management, vacillation in its policies, confusion in its merchandising techniques, disorganization at the store management level and disappointing earnings.

What is MMG's Business?

Variety stores, more commonly known as 5 and 10 cent stores, were a most lucrative field in the 1950s. The variety store field lost some of its lustre with the advent of shopping centers, discount operations and the higher cost of labor.

MMG initially had sought an easy way out of this problem. It had abandoned its historic variety store concept and had moved into the tantalizing field of self-service and quasi-discount retailing. This new area was not advantageous for MMG. The nature of the MMG stores–their location, size and organization –were all inappropriate for this type of new retailing adventure.

One of the first decisions I made in 1964 was that MMG was going to get out of this field and return to the business it knew best–variety stores.

First Step–Fact Finding

After eight months, during which a number of my associates and I visited MMG stores all over the United States, we came to certain conclusions:

1. The division was fortunate in having hundreds of managers who were mature and knowledgeable in the art of store management and eager to

Samuel Neaman, President, McCrory Corporation

accept greater responsibility.

2. These managers and other capable executives in the organization were ineffective because the policies of MMG were determined at the home office without communication with or reference to the needs in the field, especially at store level.

Guided Autonomy

Guided autonomy was established at store level. The store manager was given responsibility for operating the store profitably. To help him in the areas where he did not have necessary information or experience, teams of specialists–merchandising, sales, labor and personnel relations, accounting–were put together at home office and regional offices and their services made available to managers.

MMG now has some 600 managers, acting and reacting without delay, with two important objectives in mind, the efficient management of their stores and the satisfaction of their customers. Home office executives and specialists have become the managers' welcome consultants.

Motivating Personnel

A well managed company should provide its employees with:

- a sense of authority and self-fulfillment
- earnings commensurate with achievement
- room for advancement
- security

Over the past three years these conditions have been satisfied. Guided autonomy has stimulated confidence and initiative at the store manager level and other levels of the company. A fair scale of base salaries has been established, related to individuals' responsibilities, with increments for length of service and a bonus system based on achievement of profit goals. All of the division's employees know there is room for them to advance and that management wants them to grow and develop.

Greater logistics efficiency at MMG:

Timely, accurate and concise information from computers

Improved inventory procedures

Advanced purchasing techniques

Automated movement of merchandise

Training programs have been instituted at all levels, permitting managers of small stores to be promoted to managers of larger stores; then to district managers, senior district managers, regional managers and home office specialists.

Our personnel not only have career opportunity, but the peace of mind that comes with adequate fringe benefits. We have tried to free our people from concerns of sickness and retirement so that they can concentrate on the work problems of today and tomorrow. Fringe benefits include:

- free disability and life insurance
- medical aid
- non-contributory pension fund

The result of these efforts to motivate personnel is that we now have reliable, dedicated, determined people helping to operate the division, confident that present profitability will be surpassed.

Electronic Data Processing (EDP)

Proper decisions can be made only if they are based on accurate, timely and concise information, hence the importance of data processing to the retailer.

Large strides have been made by MMG in developing data processing techniques geared precisely to the variety store business. Since this is a business in which most transactions are less than one dollar, it is important that the division's data processing techniques provide adequate data at very low cost. No small part of the increased profit of the division is due to results made possible by the very efficient, low cost programs devised by the systems and methods department.

Buying and Merchandising

Previously, the MMG buying division, in conformity with traditional retailing practices, was responsible for the selection of merchandise in the market, quantities to be purchased, distribution to individual stores, creation of pricing policies and routing of deliveries. Such diversity of function discharged in a central office by a single division left a great deal to be desired.

The three functions, buying, merchandising, and merchandise control, were separated and each given to a specific department specializing in that function.

These three separate departments, equipped with timely, accurate information provided by the division's data processing group, have been able to anticipate and respond to customer demand.

Merchandisers are now in the field constantly studying item rate of sale in stores and sharing their observations with store, regional and district managers as to items, quantities and timing.

Furnished such information, the buyers in turn now are free to spend their time selecting the best values available in the market.

A newly created department of merchandise control deals with routing, traffic, warehousing and shipping.

More restricted areas of responsibility—buying, merchandising and merchandise control—have allowed each department to specialize and reach maximum efficiency. The result has been faster movement of goods, less investment in inventory and less working capital required, hence better return on capital investment.

Table of Organization

Early in the reorganization of MMG, the decision was made to change the table of organization to match the new allocation of managerial responsibility. Today, MMG is run under "group management"—that is management by equals at the highest level, with the division president acting as a moderator. This has provided a singleness of purpose, objectivity, mutual respect and healthy interdependence which reduces friction to a minimum. The effectiveness of this approach can best be understood by recognizing that four years ago MMG was lacking in management. Today, it is "exporting" management talent to our newly acquired S. Klein division.

Is the Variety Store Here to Stay?

We believe that the modern variety store is here to stay. It provides a multiplicity of products needed by the public and available nowhere else under one roof. It is a place where the customer can come without dressing up, without special preparation, buy what he wants and then leave.

Of course, the real proof is in the eating of the pudding. More than 180 million transactions are made each year at MMG counters. These happy customers are giving their vote of confidence to the variety store concept every day.

The Next Move—S. Klein

The administrative experience gained at MMG is now being applied to S. Klein; not duplicated, but rather adjusted to the special requirements of this

department store division.

The major management principles being applied at S. Klein are:

- group management
- cutting down large problem areas into smaller areas with each being assigned to a specialist
- promotion from within
- utilization of young talent not yet shackled to conformity.

S. Klein operates on a short markup. Therefore, its profit depends on high sales velocity. Buyers, merchandisers and store managers must have sharp reflexes. Hesitation is suicidal. Communication between the cash register at the store and the order pad on the desk of the buyer in the home office must be speedy and precise. For these and other reasons, S. Klein is being reorganized on the basis of strong, centralized management. This is distinct from MMG which is managed on a decentralized basis.

Although S. Klein acquired its computer only six months ago, we already have built a very talented and aggressive EDP staff which has shown ingenuity and originality of approach.

Incentive and fringe benefit programs comparable to MMG are now available to S. Klein employees.

The management at S. Klein believes it will not be long before they will be able to challenge MMG in improving profitability.

The job at S. Klein has just begun but our efforts have already brought results. In 1966, in its first year as part of McCrory Corporation, S. Klein achieved pre-tax earnings of $1,066,000, after years of declining earnings culminating in losses. In 1967, this division achieved pre-tax earnings of $3,071,000.

S. Klein is on its way!

Store Information

	MMG	OTASCO	LERNER	KLEIN	BEST	TOTAL
Stores in operation as of January 31, 1968	574	454	361	13	16	1,418
Stores opened during 1967	15	21	9	1	–	46
Stores closed during 1967	10	9	1	–	–	20
Stores remodeled during 1967	30	16	21	–	–	67
Stores expected to open in 1968	15	30	15	2	–	62

S. Klein emphasizes quality control—fadometer (left) tests for light fastness of apparel materials.

The world of MMG:

The shopper's apprentice

How many yards?

Fun and games

Mmm! If only they were real

A sales-building display

McCrory-McLellan-Green

In 1967, McCrory-McLellan-Green (MMG) came "of age" as a strong, stable operation.

The variety store division achievement of a 5.1 per cent pre-tax profit margin on sales fulfilled a five-year goal set for it only three years ago.

The major emphasis in the past year was to increase efficiency in movement of goods and merchandise control. The anticipated benefits of the MMG home office move in 1966 from New York City to York, Pennsylvania, became a reality in the past year. There was much better coordination and liaison between the division's buying and merchandising staffs and those executives responsible for the movement of merchandise from the supplier to the stores.

Additional mechanized equipment installed at York produced a number of efficiencies. Systems were developed for sequential loading of trucks, which provided for better utilization of warehouse facilities and truck equipment.

On other fronts in 1967, the division's personnel training programs succeeded in reaching all levels on a continuous basis. In the field of merchandising, the division has broadened the assortment of goods in departments where the public has given MMG recognition—ladies' sportswear and lingerie, ladies' and men's hose and men's shirts. In general, greater emphasis has been placed on soft goods. A team of stylists has been training store personnel in the art of soft-goods display and sales.

Plans have been completed for 15 new stores in 1968. Among these will be the division's first store in Nebraska.

An eye for glamour

Sugar and spice

Lerner Shops

Lerner Shops enjoyed the most successful year in its history in 1967.

It was a year of tremendous upheaval in the world of fashion. Hemlines zoomed well above the knee bringing in the era of the mini skirt and the mini dress. Lerner Shops' buyers and merchandising experts were fully prepared for this major new trend, having placed orders with suppliers months earlier for items which they knew would be in demand. Women from Boston to San Diego were forced to take a hard look at their wardrobes and replace a good deal of their obsolete clothes with the new fashions.

Lerner Shops celebrates its Golden Anniversary Year in 1968. Its first store was founded in New York City in 1917 as a blouse specialty shop. As new stores were added, the line of merchandise was expanded to include lingerie, dresses, sportswear, coats, suits and children's apparel.

Lerner has been profitable in all of its 50 years and has pioneered in a number of ways. It was one of the first national chains to expand into suburban shopping centers. It also was a front-runner in the use of computers and other data processing equipment.

During its 50th Anniversary Year Lerner will open in Pittsburgh its sixth regional headquarters. (Regional offices previously were established in Los Angeles, Atlanta, Denver, Chicago and Jacksonville.) The high point of 1968, however, will be the scheduled opening of a new Lerner Shops headquarters-distribution facility in New York City. It will be among the most automated and efficient operations of its kind.

Lerner Shops: the latest fashions at moderate prices

S. Klein full-line department stores:

Furniture

Handbags

Garden shop

Millinery

Bedding and linens

S. Klein Department Stores

In 1967, S. Klein set the stage for an expansion program under which seven new stores are expected to be opened by 1970. A new, more effective organizational structure was completed in the areas of merchandising, store operations, computer information and logistics.

The transition of S. Klein's merchandising policy has been completed. Rather than concentrating on "bargain merchandise," as was past practice, the new S. Klein merchandising program has resulted in the development of full line department stores, selling a broad range of up-to-date fashion and staple merchandise for nearly every kind of customer, with unusual value at all price levels. To achieve the above, the structure of the merchandising division was broadened to obtain better supervision and control. The advertising and sales promotion department also was restructured for efficiency.

An operations division was established which resulted in strong, specialized central management whose activities encompass store management, movement of goods, manpower and services. Each of these activities was placed under the supervision of a vice president, carefully selected from within S. Klein. Individual store organizational structure was revamped to match these same activities so that experienced specialists would become responsible for profits.

A new computer was installed which improves merchandise and accounting control techniques and furnishes management information on which to make informed decisions.

Logistics and warehousing problems are under continual analysis for improvement and savings. During 1967, a new central receiving and marking facility was established to handle the bulk of the division's fashion goods, resulting in substantial savings and improved services to the stores.

In March, 1968, the Love's store in Valley Stream, Long Island, changed its name to S. Klein. All stores in this division now operate under the S. Klein name.

Plans have been completed for the opening of two new stores during 1968, one in Wayne, New Jersey and one in Hicksville, Long Island.

Floor coverings

Men's clothing

Hardware

OTASCO-Economy Auto Stores

OTASCO-Economy Auto Stores, which completed another year of record earnings and sales, made major executive changes to strengthen the management team and provide continuity for growth and progress.

Abe Brand, who joined the division in 1931 and has been Executive Vice President since 1965, was elected President. Julius Sanditen, former President, was elevated to Vice Chairman of the division's Board and remains as Chief Executive Officer.

The division participated in the increased general interest in auto safety. Sales personnel emphasized to customers the importance of proper lamps, directional signals, emergency flashers, seat belts, and safe new tires. The stores' auto service centers carried on a useful and profitable business, helping assure that customers' automobiles were safe to ride the highways.

Further sales expansion occurred as a result of adding new sporting goods and outdoor home lines for recreation-minded consumers.

The division made progress in its effort to provide customers with greater personal attention. The "OTASCO and Economy Auto Man" program, begun in 1966, became increasingly effective in 1967 in emphasizing personal attention for the customer. Personal service as a theme was featured in all the division's newspaper, radio, television and catalog advertising.

In 1968, OTASCO-Economy Auto Stores celebrates its 50th anniversary. An extremely ambitious Golden Anniversary Year retail effort currently is underway. Extensive promotions and advertising programs have been developed to celebrate the division's 50th year and arrangements have been made with suppliers so that customers can benefit from special retail values.

In its 50th Anniversary Year, OTASCO-Economy Auto Stores is expanding sales of outdoor, home, recreational and automotive products. Mechanic, framed by tires (right), at a division auto service center checks engine performance.

"Young at heart" fashions

Rowes of Bond Street for boys

Best & Co.

During its first full year under the McCrory banner, Best & Co. progressed in the development of an exciting new image.

The division has emerged as an important factor in the contemporary fashion scene. It is rapidly capturing a chic new audience including young career women and customers of all ages with young-at-heart fashion interests—all the while maintaining the loyalty of its long established following.

This progress has been generated by an accelerating face-lifting operation in its Fifth Avenue store, the beginnings of a new advertising format, more imaginative window displays and a storewide change in visual decor and presentation of merchandise. A further new dimension added last year was the introduction of famous designer names to the ready-to-wear departments.

Best's famous Liliputian Bazaar, so popular with the "carriage trade," continues to be a leading fashion influence in youth clothes. Plans are underway to assure retention of this leadership among the youngsters of grade, high school and college years.

In 1967, Best introduced a Rowes of Bond Street shop. Rowes has been clothing the children of the British Royal Family and the American social set for many years. In addition to exclusive ready-to-wear designs, Best's Rowes shop also offers the service of "bespoke tailoring," clothing custom-made in London for boys and girls and dispatched directly from there.

Best strengthened its management during 1967 with the appointment of four vice presidents. The division also inaugurated a junior executive training program which will assure a continuation of qualified personnel.

It is expected that 1968 will be a year of growth and development and the further emergence of a new look as the extensive Fifth Avenue remodeling program moves ahead.

Glen Alden

As a result of three major acquisitions in 1967 Glen Alden Corporation was transformed into a new company.

The enlarged Glen Alden—including The B.V.D. Company, Inc., The Philip Carey Manufacturing Company and the Stanley Warner Corporation—achieved net earnings of $17,611,000, equal to $1.15 per common share, on sales of $537,791,000 for the year ended December 31, 1967. These figures include the earnings and sales of B.V.D. for nine months.

Glen Alden's businesses now fall into the following categories: packaged consumer products, apparel, retailing, textiles, motion picture theatres and building materials.

In the packaged consumer products field, the company is well known for its International Playtex Division, manufacturer of "Playtex" girdles and brassieres, as well as "Playtex" baby products, household gloves, swim caps, disposable nursing bottles and "Tek-Hughes" toothbrushes and hairbrushes.

The B.V.D. operation manufactures and markets "Alligator" brand coats, "Timely" and "Botany" men's suits, and men's and boys' furnishings under such labels as "B.V.D.," "Beau Brummell," "Mr. John" and "Fabiani."

Glen Alden now includes the 200 store National Shirt Shop chain, McFarlin's stores, Mullen and Bluett stores and Adams Clothes Shops.

Its textile businesses are Swift Textiles and Opp & Micolas Cotton Mills; the former a leading producer of denim and industrial fabrics and the latter, a major producer of unfinished cotton goods for decorative and industrial uses.

The company operates 160 motion picture theatres under the RKO Stanley Warner name.

Building materials manufactured by Philip Carey include roofing, siding, insulation, roof coatings, waterproofing and dampproofing materials, asphalt tile, bathroom cabinets and accessories, kitchen hoods and fans. Philip Carey also manufactures products for highway and pipeline construction and operates one of the foremost asbestos mining facilities.

Textile operations

"Playtex" foundation garments

Famous "Alligator" all weather coats

Officers of McCrory's Operating Units

McCRORY-McLELLAN-GREEN STORES

S. NEAMAN .... *Chairman of the Board*
L. A. SILVERBERG .... *President*
H. R. HUGHES .... *Vice President—Administration*
J. F. KING
Senior Vice President—National Store Operations Manager
E. B. HOOD
Vice President—National Store Merchandise Manager
N. EMBLEY .. *Vice President—National Store Sales Manager*
C. GASS .... *Vice President—National Field Controller*
R. A. ELLIOTT .... *Vice President—Manpower*
H. MORTENSEN . *Vice President—National Manager R.C.S.*
P. McCLELLAN .... *Vice President—Merchandise Controller*
F. M. PATCHEN .. *Vice President—Research & Development*
W. R. TALLMAN .... *Vice President & Head Buyer*
J. CHERNOW .... *Vice President—Finance*
K. PHILLIPS .... *Vice President—Systems & Methods*
B. JACOBI .... *Vice President—Real Estate*
W. SHULDINER . *Vice President—Construction & Engineering*
R. KRISTIANSEN ...... *Vice President—Special Assignments*
B. LITWAK ... *Vice President—Regional Manager—Region I*
T. B. ACKER . *Vice President—Regional Manager—Region II*
O. W. WHEELER
Vice President—Regional Manager—Region III
N. P. McLUCKIE
Vice President—Regional Manager—Region IV
N. S. McBRAYER
Vice President—Regional Manager—Region V
L. C. SHOCKLEY ... *Assistant to the President—in charge of New York Resident Buying Office*

S. KLEIN DEPARTMENT STORES

SAMUEL NEAMAN
Chairman of the Board & Chief Executive Officer
R. DUFFY LEWIS .... *President*
SAMUEL S. BRAND
Senior Vice President—Director of Controls
GEORGE CONDZAL ..... *Vice President—Systems & Methods*
STANLEY MAER
Senior Vice President—Director of Merchandise
DAVID PORTNOY
Vice President—General Merchandise Manager (Hard Goods)
HY LEDER .. *Vice President—Sales Promotion & Advertising*
HARRY GROSS ...... *Vice President—Director of Operations*
STEPHEN JACKEL ... *Vice President—General Store Manager*
ROBERT GEBER .... *Vice President—Movement of Goods*
DAVID GANZ .... *Vice President—Services*
ROBERT GEWELB .... *Vice President—Manpower*
JOSEPH WALKER ...... *Vice President—Counsel & Secretary*
JACK KIVETZ .... *Treasurer*
CHARLES WITZ .... *Controller*

LERNER STORES CORPORATION

HAROLD M. LANE, SR. ... *Chairman of Executive Committee & Chief Executive Officer*
STANLEY H. KUNSBERG .... *Chairman of the Board*
HAROLD M. LANE, JR. .... *President*
D. JOHN PALLADINO .... *Vice President & Treasurer*
KARL MARGOLIS
Vice President—Divisional Merchandise Manager
NATHAN B. EPSTEIN .... *Vice President & Secretary—Divisional Merchandise Manager*
MILTON SEEGAL
Vice President—General Manager Los Angeles Division
ROBERT L. KRILL
Vice President—General Manager Chicago Division
HAROLD GREENE
Vice President—General Manager Denver Division
EUGENE SHAW
Vice President—General Manager Atlanta Division
MELVIN J. REDMOND
Vice President—General Manager Jacksonville Division
DAVID D. GREENWALD .... *Vice President—Real Estate*
ABRAHAM D. SPERBER
Vice President—Divisional Merchandise Manager
BRUCE A. JACOBI .... *Vice President—Real Estate*
SAMUEL S. BRAND ... *Vice President—Systems & Procedures*
MAX J. MILLER .... *Vice President—Labor Relations*
JACOB J. SCHER
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OTASCO-ECONOMY AUTO STORES

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JULIUS SANDITEN . *Vice Chairman & Chief Executive Officer*
ELY G. SANDITEN . *Vice Chairman of Executive Committee*
ABE BRAND .... *President*
EDGAR SANDITEN .... *Vice President—Merchandising*
A. A. McNATT .... *Vice President—Retail Division*
JOHN R. BEHL .... *Vice President—Economy Division*
EDWARD WILKONSON .... *Vice President—Associate Division*
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BEST & CO.

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Executive Vice President—General Merchandise Manager
ALVIN SOMERS
Vice President—Merchandise Manager, Children's Division
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ARTHUR GOLDEN .... *Vice President—Finance*
ROGER HUNDLEY .... *Vice President—Store Management*

McCRORY
CORPORATION
AND SUBSIDIARY COMPANIES

Statement of Consolidated Income

	Year Ended January 31, 1968	Year Ended January 31, 1967
Revenues:		
Net sales	$813,416,223	$712,726,688
Other—net	4,146,780	3,681,273
	817,563,003	716,407,961
Costs and Expenses:		
Cost of goods sold	599,319,308	524,054,481
Selling, general and administrative expenses	171,603,720	151,174,276
Interest and debt expense	10,694,356	8,927,963
Depreciation and amortization	9,284,629	8,845,931
Federal income taxes	11,018,000	8,740,000
	801,920,013	701,742,651
Income Before Minority Interest	15,642,990	14,665,310
Income Applicable to Minority Interest	3,577,359	4,099,502
Net Income	$12,065,631	$ 10,565,808
Net Income per Share of Common Stock	$2.27	$1.81

See Notes to Financial Statements.

McCRORY CORPORATION AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

Assets	January 31, 1968	January 31, 1967
Current Assets:		
Cash and, in 1967, U. S. Treasury Bills	$ 11,295,379	$ 5,155,312
Receivables, after allowance for doubtful accounts of $1,464,737 and $1,847,757	6,759,378	16,496,714
Merchandise inventories, at lower of cost (mainly retail method) or market	115,118,012	108,251,365
Prepaid expenses, etc.	4,695,868	3,916,043
Total Current Assets	137,868,637	133,819,434
Investments in and Advances to:		
Glen Alden Corporation, at cost	34,267,491	34,267,491
McCrory Credit Corporation, at equity	10,056,269	8,625,568
	44,323,760	42,893,059
Property and Equipment, at cost	178,501,675	173,145,430
Less accumulated depreciation and amortization	100,934,757	95,389,913
	77,566,918	77,755,517
Other Assets:		
Excess of cost of investments in subsidiaries over related equities	20,627,148	16,840,959
Unamortized debt expense	8,226,214	5,988,375
Mortgages and sundry	2,695,768	3,903,587
Trademarks, deferred charges and unamortized goodwill	3,895,077	4,241,171
	35,444,207	30,974,092
	$295,203,522	$285,442,102

See Notes to Financial Statements.

Liabilities and Stockholders' Equity	January 31, 1968	1967
Current Liabilities:		
Notes payable to banks	$ —	$ 8,500,000
Current maturities of long-term debt	7,389,677	13,815,219
Accounts payable	26,272,697	26,639,064
Accrued expenses and sundry	23,659,867	21,392,206
Accrued Federal income taxes	11,223,238	7,576,792
Total Current Liabilities	68,545,479	77,923,281
Long-Term Debt, less current maturities	92,863,272	59,555,412
Deferred Federal Income Taxes and Other	22,088,270	20,241,035
Minority Interest in Subsidiary Companies	10,750,307	19,738,437
Stockholders' Equity:		
Preferred and preference stocks	17,482,900	21,944,400
Common stock, $.50 par value, authorized 15,000,000 shares; issued 6,111,502 shares and 6,099,263 shares	3,055,751	3,049,632
Capital surplus	51,846,812	43,338,279
Earned surplus	62,152,313	57,383,383
	134,537,776	125,715,694
Less treasury common stock 1,306,285 shares and 889,551 shares, at cost and in 1968 equity in subsidiary's cost of its treasury stock ($7,389,474)	33,581,582	17,731,757
Stockholders' Equity	100,956,194	107,983,937
	$295,203,522	$285,442,102

See Notes to Financial Statements.

McCRORY
CORPORATION
AND SUBSIDIARY COMPANIES

Statement of Consolidated Surplus

	Year Ended January 31, 1968	1967
Earned		
Balance, February 1	$57,383,383	$54,322,890
Add (Deduct):		
Net income	12,065,631	10,565,808
Dividends:		
On preferred and preference stocks	(980,401)	(1,141,586)
On common stock ($1.20 per share)	(5,859,232)	(6,238,054)
Excess of cost of shares of treasury stock issued under stock option plans over option price	(444,585)	(97,842)
Other—net	(12,483)	(27,833)
Balance, January 31	$62,152,313	$57,383,383
Capital		
Balance, February 1	$43,338,279	$41,280,363
Add:		
Excess par value resulting from conversion of preferred and preference stocks into common stock	214,119	504,330
Excess of proceeds over par value of common stock issued on exercise of Warrants	19,773	7,508
Surplus arising from issuance of 594,968 and 772,339 Warrants at $2 per Warrant	1,189,936	1,544,678
Credit arising from McCrory Recapitalization Tender Offer	1,413,562	—
Equity in certain transactions of subsidiaries	5,670,850	—
Other—net	293	1,400
Balance, January 31	$51,846,812	$43,338,279

See Notes to Financial Statements.

Source and Application of Consolidated Financial Resources

	Year Ended January 31, 1968	1967
Source		
Operations:		
Net income	$12,065,631	$10,565,808
Charges not requiring current outlays:		
Depreciation and amortization, including debt expense	10,183,765	9,725,294
Deferred Federal income taxes	3,856,000	4,515,000
	26,105,396	24,806,102
Increase in long-term debt (1968 exclusive of $27,406,849 issued during year in recapitalization tender offers and in acquisition of S. Klein Department Stores, Inc.)	5,901,011	5,799,104
Other—net	3,530,937	—
	$35,537,344	$30,605,206
Application		
Additions to property and equipment, net	$ 9,578,703	$12,294,938
Dividends paid	7,702,797	7,379,640
Charges to reserve for closing of loss stores	—	1,029,121
Treasury stock purchased (net of stock option sales)	4,828,839	—
Other—net	—	5,395,731
Increase in working capital	13,427,005	4,505,776
	$35,537,344	$30,605,206

See Notes to Financial Statements.

McCRORY CORPORATION
AND SUBSIDIARY COMPANIES

Notes to Financial Statements, January 31, 1968

Principles of consolidation

The consolidated financial statements include Lerner Stores Corporation (61.7% owned) and all wholly-owned subsidiaries, except McCrory Credit Corporation. During November 1967, S. Klein Department Stores, Inc. was merged into McCrory Corporation. Prior thereto Klein had been a consolidated subsidiary from April 1966 (date majority control obtained).

McCrory Credit Corporation and equity in instalment accounts sold

McCrory and its affiliates assign certain customers' accounts receivable to McCrory Credit Corporation, which remits 90% of the amount thereof. The companies accept reassignment of any accounts in default, as defined. The 10% equity of McCrory and subsidiaries in assigned accounts (the uncollected balances of which amount to $41,278,000 at January 31, 1968) is included in receivables in the consolidated balance sheet. Collections in January 1968 (payable to McCrory Credit Corporation in February 1968) from assigned customers' accounts (net of 10% equity) amounting to $12,492,000 have been deducted from receivables in the consolidated balance sheet. The investment in McCrory Credit Corporation is carried at McCrory's equity in the capital and undistributed earnings at January 31, 1968 as summarized below:

Accounts receivable, less unearned discount	$50,016,724	
Cash	5,903,622	
Other assets, less other liabilities	1,435,923	$57,356,269
Notes payable to banks	47,300,000	
Notes payable to McCrory and subsidiaries	7,000,000	54,300,000
McCrory's equity		$ 3,056,269

Net income of McCrory Credit Corporation for the years ended January 31, 1968 and 1967 of $430,701 and $319,775, respectively, is included in consolidated income.

Investments

Consolidated Subsidiaries:

Lerner Stores Corporation—McCrory owned at January 31, 1968 and 1967, 2,558,815 shares of Lerner common stock (61.7% and 50.1%, respectively). Lerner during August and September 1967 acquired in a tender offer 960,943 shares of its common stock and redeemed 12,227 shares of its preferred stock. Lerner issued in exchange therefor $2,294,329 in cash, 1,002,483 warrants (expiring August 31, 1982) to purchase Lerner common stock at $15 per share and $10,024,830 principal amount of Lerner 6½% sinking fund subordinated debentures, due 1982.

S. Klein Department Stores, Inc.—McCrory owned at January 31, 1967, 805,077 shares (67.1%) of Klein common stock and $1,836,000 principal amount (55%) of Klein 5¾% convertible subordinated debentures. McCrory during September 1967 converted its Klein convertible debentures into 194,904 shares of Klein common stock and, in the merger with S. Klein Department Stores, Inc. in November 1967, issued for the balance of the Klein common shares, $316,138 in cash, $5,390,060 principal amount of 5% junior sinking fund subordinated debentures, due 1981, $746,160 principal amount of 6½% convertible subordinated debentures, due 1992, and 594,968 Warrants (expiring March 15, 1981) to purchase McCrory common stock at $20 per share through March 15, 1976, and at $22.50 per share through March 15, 1981.

At January 31, 1968 the aggregate cost of investments exceeded equity in underlying net assets at dates of acquisition as follows: common stock of Lerner ($8,650,000) and securities of Klein ($11,977,148). Such excess purchase costs have been recognized by the McCrory management to be similar in nature to intangibles which have not declined in value since acquisition. Accordingly, at dates of acquisition, management adopted the policy of not amortizing these excess purchase costs, so long as there is no diminution in value of the related investments.

Glen Alden Corporation:

McCrory owned at January 31, 1968 and 1967, 2,388,230 common shares of Glen Alden (30.5% and 49.7%, respectively). These shares had an approximate market quotation value of $34,928,000 at January 31, 1968.

Long-term debt

Long-term debt at January 31, 1968 and maturities due within one year consisted of the following:

	Current Maturities	Long-Term Debt
5½% sinking fund subordinated debentures, due 1976 (a)	$2,021,472	$32,775,168
5.235% subordinated notes, due in equal annual instalments to 1969	1,786,284	1,786,285
5% junior subordinated notes, maturing serially to April 1, 1970	1,194,115	1,791,172
5% junior sinking fund subordinated debentures, due July 15, 1981 (b)	—	13,113,450
5.70% promissory note, due serially to September 1, 1969 (c)	1,000,000	3,400,000
Notes payable to banks under Revolving Credit Agreement (d)	—	14,700,000
6½% convertible subordinated debentures, due February 15, 1992 (e)	—	12,092,207
6½% sinking fund subordinated debentures, due September 1, 1982	100,248	9,924,582
Sundry, principally mortgages	1,287,558	3,280,408
Total	$7,389,677	$92,863,272

(a) Exclusive of $26,976 redeemed and cancelled which is available for 1969 sinking fund payment. Sinking fund requirements in each year are as follows: 1969 through 1971—$2,048,448; 1972 through 1976—$3,277,517, with a final payment of $12,290,687 due on August 15, 1976.

(b) Required annual sinking fund payments commencing January 30, 1970 are 2% of the aggregate principal amount outstanding on the preceding January 15. Such payments at the 2% rate continue each succeeding year to and including 1974 and at the rate of 5% with respect to each year thereafter to January 30, 1980.

(c) Payment of $1,000,000 due on September 1, 1968 with the balance payable on September 1, 1969.

(d) Revolving Credit Agreement: 6%, 90 day promissory notes to banks renewable at the option of the Company at each maturity date to July 31, 1969. It is the Company's intention to renew these notes until July 31, 1969.

(e) Convertible at the option of the holder at the conversion price of $25 principal amount of debentures per share of common stock to and including February 14, 1972, $30 to and including February 14, 1977 and $35 to and including February 15, 1992.

The aggregate of long-term debt maturing during the five years ending January 31, 1973 is approximately as follows: 1969, $7,390,000 (included in current liabilities); 1970, $11,153,000; 1971, $3,364,000; 1972, $4,047,000; and 1973, $3,884,000.

Agreements covering certain indebtedness of McCrory contain covenants concerning working capital position, additional indebtedness, limitations on the declaration and payment of dividends, restrictions on transactions in capital stock, etc. At January 31, 1968 approximately $33,000,000 of consolidated surplus was free of restrictions.

Federal income taxes

For Federal income tax purposes accelerated methods of computing depreciation and the instalment method of reporting certain sales have been used. The use of these methods has resulted in tax deferrals which have been charged against income and credited to deferred Federal income taxes.

The Internal Revenue Service, together with the Tax Court, has had under review income tax returns of Klein and its subsidiaries for the fiscal years ended July 27, 1957 and July 26, 1958. There have been a series of conferences regarding the asserted income tax deficiencies and there has been tentative agreement reached with the Internal Revenue Service regarding the outstanding issues. As at July 31, 1967 Klein provided a reserve for the estimated liability for these two years, together with the subsequent four years through July 29, 1962, and a related charge was made by Klein to retained earnings. In the accompanying consolidated balance sheet at January 31, 1967 effect has been given to the foregoing by adjustment of excess of cost of investments and minority interest.

Preferred and preference stock and common stock purchase warrants

At January 31, 1968, 174,829 shares of $100 par value preferred and preference stock were outstanding (aggregate par value $17,482,900; aggregate redemption amount $18,916,787) and 238,209 shares of common stock were reserved for the conversion thereof, as follows:

Class of Stock	Shares Authorized	Shares Outstanding	Redemption Price	Conversion Rate	Common Shares Reserved
3½% cumulative convertible preferred	3,253	3,253	$104	5 for 1	16,265
$6 cumulative convertible preference	94,725	94,725	115	3/14 for 1	20,298
5½% cumulative subordinated preference B	3,647	3,115	100	5 5/9 for 1	17,306
4½% cumulative subordinated preference B	73,974	73,736	100	2 1/2 for 1	184,340
Total		174,829			238,209

At January 31, 1968 there were outstanding 336,706 Warrants (expiring March 15, 1976) and 3,697,753 Warrants (expiring March 15, 1981) to purchase McCrory common stock at $20 per share through March 15, 1976, and at $22.50 per share through March 15, 1981. Had the convertible preferred stocks, convertible debentures, common stock options and warrants been converted or exercised, and had the proceeds therefrom been applied to the repurchase of McCrory common stock, net income per share would not have been materially affected.

Recapitalization Tender Offer

Pursuant to a recapitalization tender offer which expired April 10, 1967, McCrory acquired 485,805 shares of its common stock, 40,787 shares of its 4½% cumulative preference B stock, 1,629 shares of its 5½% cumulative preference B stock and $1,244,320 principal amount of its 5½% sinking fund subordinated debentures and issued in exchange therefor $2,671,928 in cash and $11,346,447 principal amount of 6½% convertible subordinated debentures, due 1992.

Stock option and employee stock purchase plans

Shares of McCrory's common stock reserved for issuance under stock option and employee stock purchase plans are tabulated below:

	1960 and 1961 Plans	1964 Plan	1967 Plan	Employee Stock Purchase Plans
Option price range	$12.25–$21.50	$13.125–$20.125	$19.625–$26.375	$14.24
Shares				
Outstanding February 1, 1967	120,950	437,752	—	1,179
Transactions during year ended January 31, 1968:				
Granted	—	177,000	144,550	—
Exercised	(2,350)	(73,157)	(900)	(1,179)
Cancelled, etc.	(100)	(39,250)	(4,250)	—
Outstanding January 31, 1968	118,500	502,345	139,400	—
At January 31, 1968:				
Exercisable	94,150	340,481	24,044	—
Available for grant	None	39,400	59,700	None

During the year ended January 31, 1968 options for 77,586 shares were exercised at an aggregate option price of $1,107,700.

Pension Plans

The Company has two non-contributory pension plans covering certain of the employees of Lerner and the MMG division. It is the Company's policy to fund pension costs accrued as required. For the years ended January 31, 1968 and 1967 pension costs under the Lerner Plan amounted to $427,000 and $390,000, respectively. No contributions were required for the MMG plan for these years since the amounts accumulated in the trust fund exceeded the liability and vested benefits, as computed by the consulting actuary.

Pension plans have been adopted for certain employees of the Klein and Best & Co. divisions. These plans are not yet operative, pending approval of the Internal Revenue Service. The actuarially computed past service costs in respect to these plans as of January 1, 1968 was approximately $2,573,000. If the plans become operative, it is the Company's intention to amortize the past service costs over a 30 year period.

Other matters

There are several claims pending against McCrory and subsidiaries together with other contingencies (including long-term leases on locations at which operations have been or will be discontinued). Total liability cannot be determined, but management and counsel are of the opinion that the liabilities in the consolidated financial statements are adequate to cover the same. At January 31, 1968 the minimum annual rentals upon property leased to McCrory and its subsidiaries under leases expiring after January 1971 amount to approximately $31,000,000 plus, in certain instances, real estate taxes, insurance, etc.

Accountants' Opinion

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

McCrory Corporation:

We have examined the financial statements of McCrory Corporation and subsidiary companies except Lerner Stores Corporation and its subsidiaries for the year ended January 31, 1968. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to Lerner Stores Corporation and its subsidiaries, we were furnished with the report of other accountants on their examination of the financial statements of that company and its subsidiaries for the year.

In our opinion, based on our examination and the report of other accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated income, consolidated surplus and source and application of consolidated financial resources present fairly the financial position of McCrory Corporation and subsidiary companies at January 31, 1968 and the results of their operations and the source and application of their consolidated financial resources for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

April 2, 1968

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*Member of Executive Committee

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Harold M. Lane, Jr.
Lerner Stores Corporation

Abe Brand
OTASCO-Economy Auto Stores

R. Duffy Lewis
S. Klein Department Stores

Jack Schwadron
Best & Co.

Paul A. Johnston
Glen Alden Corporation

AUDITORS	Haskins & Sells, New York, N.Y.	
GENERAL COUNSEL	Rubin, Wachtel, Baum & Levin, New York, N.Y.	
TAX ADVISORS	Hanigsberg, Delson & Broser, New York, N.Y.	
PUBLIC RELATIONS	Rubenstein, Wolfson & Co., New York, N.Y.	
TRANSFER AGENTS	Common Stock 5½% Preference B Stock 4½% Preference B Stock	Chemical Bank New York Trust Company and First National Bank of Chicago
	3½% Preferred Stock $6 Preference Stock	Morgan Guaranty Trust Company of New York and First National Bank of Chicago
REGISTRARS	Common Stock 5½% Preference B Stock	Morgan Guaranty Trust Company of New York and Continental Illinois National Bank and Trust Company of Chicago
	4½% Preference B Stock	The Chase Manhattan Bank and Continental Illinois National Bank and Trust Company of Chicago
	3½% Preferred Stock $6 Preference Stock	Chemical Bank New York Trust Company and Continental Illinois National Bank and Trust Company of Chicago
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